

The Railroad Situation

The Duty of Every Newspaper

A letter to Members of the Southern
Newspaper Publishers' Association

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The Duty of Every Newspaper

(Confidential to Members)

Birmingham, Ala., May 31, 1920.

My dear Fellow Publishers:

The recent outlaw railroad strike served one good purpose, while it was doing inestimable damage to the nation as a whole. It did serve to concentrate our attention on the importance of the transportation facilities of the country.

A partial tie-up of some of the big railroad systems of the country paralyzed industry, endangered the health and safety of all the people and clogged seriously the wheels of commerce and industry. That strike served to bring before our minds a picture of what a **real break-down** of the transportation system of the United States would be.

* * *

A handful of dissatisfied men in Chicago struck a blow at the business of the nation, under which it is still smarting weeks and weeks later. Now, were things normal, were railroad conditions what they ought to be, were railroads adequately equipped with rolling stock sufficient to meet the emergency, and road and terminal facilities sufficiently developed to care for the normal needs of commerce and trade at their high levels, this handful of men in Chicago would have been unable to deal so serious a blow.

Temporary embarrassment there would have been. Yes, but not even faintly to compare with the condi-

tion that has arisen, a condition that has called for the most drastic action on the part of the Interstate Commerce Commission, state railroad commissions and of hundreds of the ablest railroad executives in the world.

And with all this drastic action, the tie-up is not yet relieved. Shipments are delayed, traffic is out of balance, and the whole people suffers. Now, all this comes in a time of nothing like the maximum production of which this nation is capable.

* * *

Produce! Produce! Produce! This has been the constant cry of the doctors of the industrial ills of the country. Particularly has this been true of newspapers. Your newspaper and mine have told the people over and over again that increased production was the panacea for all commercial ills; that increased production alone could bring down the cost of living, and that a full week of production every week by every laborer was the sole answer to the hideous question raised in the average home by the constantly mounting cost of commodities and the constantly diminishing purchasing power of the dollar.

Every word of that preachment is based on solemn truth. Every man who thinks, knows that the will to work must precede and become a foundation for the power to produce, and that the power to produce must be exerted to maximum pressure to reduce a world shortage of commodities, and to bring world-supply into reasonable touch with world demand.

But what good will it do to produce all the commodities that the world can consume, if transportation facilities are inadequate to the task of distribution?

Distribution is just as important as production, and crippled railway facilities cannot haul normal produc-

tion to market, much less the kind of abnormal production necessary just now to the world's needs.

* * *

If every laborer in the United States were putting every ounce of power in his bones and muscles, backed up by an overpowering will to work, into forty-eight hours of production every week, ***the railroads of this country would be unable to handle the output.*** It would be the old case of fruit and vegetables rotting on the ground in one community, while the people of a neighboring community starved. Commodities would glut the markets in one section, while another would be unable to obtain sufficient for the acute needs of the moment.

So, no matter how much we may shun the problem, transportation is a basic, controlling factor in bringing the country back to normal, in reducing the high cost of living and in laying a sound basis for reconstruction after the abnormal war period.

The railroads must be made to function efficiently, and be put upon a paying basis; they must have adequate equipment, funds for expansion to meet the growing commercial needs of the country, and their securities must be made attractive to the small investor before we can even start on the road to economic recovery.

* * *

As newspaper publishers, each one of you has seen in recent weeks what inadequate transportation facilities meant to you in your business. We have all been crying for increased production of newsprint, and yet we have recently witnessed the spectacle of paper mills threatened with shutdowns because there were no cars to haul wood, coal and pulp to the mills, and haul away the paper they had already manufactured, and newspapers and paper mills have been favored in the matter of car facilities.

I know of one railroad that has paid demurrage on thousands of cars each day because they did not have the engines, and if they had had the engines, they would have been without coal, and this road moves thousands of cars of newsprint every year. So, if our situation was bad, it must have been infinitely worse in many other lines.

During the period of government control, railroad equipment was strained to the last notch to meet the war emergency. Practically no new equipment was added. Old, worn-out cars were kept in service beyond their allotted time. Consequently when the roads were turned back to their owners, with the whole country committed to the theory of private management, they found their equipment depleted, much of their rolling stock unfit for use, and no funds for replacements and expansion.

* * *

During the eight-year period from 1909 to 1916, the railroads of this country supplied a yearly average of 150,600 new freight cars, 3,180 passenger cars, 2,970 locomotives.

During the war period the annual average was 75,000 freight cars, 850 passenger cars, 1,900 locomotives.

In other words, the gross shortage of equipment today is 226,000 freight cars, 7,000 passenger cars, and 3,000 locomotives.

The railway executives figure the imperative, immediate needs for equipment call for 100,000 freight cars, including 20,000 refrigerator cars, 2,000 locomotives, 3,000 passenger cars and 1,000 baggage cars, costing in round figures at present prices \$610,000,000.

These demands for new equipment must be met if the roads are to be put upon a sufficiently sound basis

to meet the transportation needs of the nation and save business for the next few years.

* * *

The high cost of living has struck a body blow at the railroads. *Operating expenses have increased more than a hundred per cent, while operating revenues have increased less than half that amount.*

These are the conditions we are facing. All the theorizing in the world is not going to change them one iota. In the past, you may or may not have fought railroads. Roads have sinned, roads have earned enormous dividends, roads have dabbled in politics. But those things are history. The situation today stands for itself, and your business and my business depend on whether the railroads are able to meet the transportation problems of the country and solve them adequately.

There is only one way that the railroads can be put upon a substantial basis, provided with equipment adequate to their needs, and that is by an increase in freight rates, the roads having determined that the wisest course is to put the burden on freight rather than to distribute it between passenger and freight traffic. Their appeal is now before the Interstate Commerce Commission, and the next few weeks are to be consumed in hearings on the subject.

* * *

My appeal to the newspapers of the South is to get behind the railroads in their effort to obtain these increases.

The railroads of the South are asking for an increase of 30.95 per cent., which would yield 6 per cent. upon capital invested. The railroad law of 1920 gives the Commission power to raise rates to produce a return of five and one-half per cent., or six per cent., in the discretion of the Commission. The roads are asking

six per cent. in order to make their securities attractive, to assure self-sustaining power. Anything less would seem wholly inadequate, as the strongest roads of the country have been unable to borrow money at a lower rate than seven and one-half per cent. to purchase new equipment.

The function of the newspaper, as I see it, is so to educate the public as to insure this advance in rates from the Commission and to make the public see the necessity of it that it may be accomplished with a minimum of friction and a maximum of good will.

* * *

Our railroad rates before the war were the lowest in the world, and since the war, England has raised rates on freight by 71 per cent., France 140 per cent., Belgium 100 per cent., Italy 40 to 100 per cent., Holland 70 to 140 per cent., Sweden 200 per cent., Norway 150 per cent., besides enormous increases in passenger rates in each of these countries.

Today a given unit of any commodity will buy more transportation than ever before in the history of the world. I quote Mr. Walker D. Hines, former head of the railroad administration:

. . . "When you consider the price paid for everything else, the value that is enjoyed by every article transported by the railroads, a given unit of any commodity will buy more transportation now than it ever did before in the history of the country.

A ton of steel, or a bushel of wheat, or any other unit of any commodity will buy more transportation now than ever before. The result of that is that freight rates at the present time, instead of being higher than ever before, are lower than before, when tested by the value of the units transported and the amount of transportation which that unit will buy."

Thus justice is added to the plea of the railroads that they be given revenue adequate to produce sufficient return upon the capital invested. Selfishly looking at the matter, I fail to see how any newspaper can oppose the rate increases requested by the carriers. But looking at the situation in the broader light of abstract justice to the roads, and to justice they are unquestionably entitled, *it seems clear that they should be given the increases in the amounts prayed.*

* * *

Some objection has been offered that to provide six per cent. return upon capital invested would mean providing dividends at that rate upon gross over-capitalization. Undoubtedly it is true that some of the railroads were over-capitalized, while *it is equally true that many were under-capitalized*, and the estimates upon which the requests for increases were based were figured upon the railroads as a whole, with a probable offset of over-capitalization against under-capitalization.

* * *

But going further than this, the enormous increases in the value of transportation facilities make it apparent that the railroads of the country could not replace their equipment for the present capitalization. In other words, the railroads of the United States are capitalized on an average basis of \$71,000 per mile over all, and it seems self-evident that the roads could not be replaced on that basis.

* * *

But, after all, that is beside the point. *The rights and wrongs of watered stocks of other years do not bear on the present problem.* The problem today is:

Shall this country endanger its commercial and industrial future by emphasizing production at the expense of distribution?

Shall it send its business to smash through a niggardly policy with reference to its transportation needs?

The duty of the newspaper that sees this problem is evident. An educational campaign will make the issue clear to the people, who will not be slow to see the situation in its true light, and then after these rate increases are granted—and, by the way, they make no provision for the wage increases to be awarded by the Railroad Labor Board this Summer—the newspapers of the country *must educate the small investor to put some of his savings into railroad securities.*

First, those securities must be made attractive to the investor and then the man who saves his money must be taught to put some of it into the transportation interests of the country. When the railroads are on a safe, sound, self-sustaining basis, paying sufficient dividends to attract the men with small amounts to invest, it will not be difficult to educate the public to use its savings in that way.

* * *

What would a thousand dollars or so invested in railroad securities mean to the average newspaper man, if by so doing he helped to solve the transportation problems of the country and helped to insure himself a mobile supply of newsprint? What would the investment of a few thousands by every important shipper in the country mean, if by so doing each shipper insured free movement, in and out, of the necessities of his business?

As to the necessity of interesting the small investor, I quote from the recent remarks of Howard Elliott, Chairman of the Northern Pacific Railway, before the Interstate Commerce Commission:

“It is more important than ever before to interest the small investor because the effect of the present income tax is to take away

from the man of large means an increasing amount of his income and leaves a decreasing part of it to invest in industrial enterprises."

If I did not believe the case was urgent, I would not burden you at this time with a long bulletin on this subject.

* * *

The safety of the transportation agencies of the nation is of vital importance to every business man and particularly to every newspaper man, because he not only has to face the problems that all other shippers do, but, in addition, in his business is reflected the fundamental soundness of every other line of trade in his community. When other lines suffer, he suffers; when other lines prosper, he prospers.

The soundness of railroad securities now outstanding, nearly \$600,000,000 of which mature in the next three years and must be refunded probably at largely increased interest rates, will determine the soundness of the savings bank deposits and the life insurance policies of the nation.

As Mr. Elliott said before the Interstate Commerce Commission, the railway executives represent not only the 1,500,000 owners of railroad securities, but also the 50,000,000 persons whose savings deposits and life insurance premiums have been invested in those securities.

I lay the problem before you as I see it, in the firm belief that enlightened self-interest and broad public policy will be found to lie in the same channels of action.

Fraternally yours,

VICTOR H. HANSON,

Publisher The Birmingham News, Chairman Executive
Committee Southern Newspaper Publishers' Association.

